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**JAPANESE MANAGEMENT TECHNIQUES TO ENHANCE THE
GOVERNANCE OF GREEK SMALL AND MEDIUM-SIZED FIRMS**

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JAPANESE MANAGEMENT TECHNIQUES TO ENHANCE THE GOVERNANCE OF GREEK SMALL AND MEDIUM-SIZED FIRMS[1]

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ABSTRACT

Given the economic and social crisis Greece is going through, it seems clear that the Greek future over the next few years will rest on macroeconomic actions, both national and international. This undeniable assertion notwithstanding, I do maintain that the Greek private sector has an important role to play in overcoming the present crisis. This especially applies to Greek small and medium-sized enterprises (SMEs), which comprise an important proportion of Greek firms.

The use of adequate SME governance tools at Greek companies might be beneficial. Good governance leads to a better relationship among stakeholders, increases the effectiveness of board work and activates unknown potential at the firm through better principles and practices.

Some Japanese tools that enhance governance as could be applied to Greek SMEs and smaller state organizations are presented. In general, SMEs, with fewer

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relative resources, face important conceptual and methodological difficulties when implementing a governance structure. This assertion is also true in Greece. Over the past three or four decades, however, Japanese management techniques that can be applied to implement and consolidate SME governance have gained diffusion all over the world. These tools are particularly apt for Greek SMEs, due to their flexibility, low cost, and rapid effectiveness.

Specific examples of applications to enhance governance at Greek SMEs are provided. Tools applied are (1) A new SME governance indicator; (2) *Hoshin* management; and (3) Effective meeting technology. The three tools interact in a systemic mode.

I. INTRODUCTION

Corporate governance is a field of study and application that deals with corporate by-laws, statutes, codes of good practices, management of interest conflicts among stakeholders, and accountability of the firm, among other themes. SME governance has specific problems, and specific ways to define, measure, and approach them (Apreda, 2003; Gabrielsson, 2003; Yacuzzi, 2005 a). In order to have an effective governance, companies must translate concepts into actions that transform the company and its environment according to governance concepts.

While larger companies, in general, display adequate planning and control mechanisms that put governance into daily practice, SMEs, with fewer relative resources, have methodological and conceptual difficulties to implement and maintain a governance architecture. Over the last three or four decades, however, some Japanese management tools have gained widespread difussion all over the world, and they can be applied to governance implementation and consolidation both at larger and smaller firms. In this article, emphasis is given to SME governance, as a fertile terrain for immediate and effective implementation of a governance structure through a few Japanese methods. In particular, the focus is on Greek SMEs, given their prevalence in the country[1]; moreover some of their features invite Greek SMEs to apply simple and effective governance tools. I believe that these applications can enhance SME governance in a few months, if led by an active management group.

I present basic governance concepts as they can be applied to SMEs and smaller public organizations; I show key concepts of some Japanese management tools and how they could be applied to enhance governance at Greek SMEs, by converting abstract concepts of SME governance into concrete operating systems that conduct daily aspects of governance. These tools are: (1) A SME governance

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[1] There are approximately 73 SMEs per 1000 inhabitants in Greece, a number well above the EU-27 average of 40. More than 97% of all Greek enterprises are micro companies. Greek SMEs account for a far larger share of total employment and value added than the EU average. According to the National Strategic Reference Framework 2007-2013, just to quote another piece of data, 87% of a total workforce of 1.785.000 employees work at Greek SMEs. (NSRF, 2006).

indicator –based on the structure, although not the contents– of the Japanese Deming Price; the indicator serves as a monitoring mechanism, as a checklist of governance keypoints, and as a roadmap to better governance; (2) *Hoshin* management, with a well-tested, SME-oriented methodology; *hoshin* management aims at short-term planning focusing on a few objectives, called *hoshin*, to overcome key problems in the context of a long-term plan; and (3) A system of effective meetings, based on the experience of a leading Japanese shipyard; the system organizes the *hoshin* planning process and strengthens company governance. All three tools are used in the context of a TQM-like system and its quality methods.[1] When systematically applied to a SME, they become operative and put in action SME governance concepts.

II. MAIN FEATURES OF GREEK SMES AND TOOL RELEVANCE

Most Greek SMEs are family firms and share the common characteristics of family firms around the world: a long-term perspective, strong commitment to the business and its strategy and a clear identity; they minimize agency costs; the family is involved in the top management of the company and creates a working environment associated with employee care and loyalty; conflicts and succession issues are key concerns, as well as governance issues such as whether the CEO belongs to the family.

In addition, studies show that an important challenge faced by Greek family firms is strategy formulation, as well as staff employment and succession from one generation to the next, in the context of conflict management and resistance to change. Agapitou & Theofanides (2008) present three issues confronted by Greek family firms: (1) The ability of family members to effectively and professionally manage the business, specially when there is the transfer of ownership or management from one generation to the following; (2) The lack of a succession

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[1] TQM means Total Quality Management.

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plan and the confusion that this lack generates when the generation in charge leaves the business scene; and (3) Corporate governance, in particular, those issues related to the protection of minority shareholders' interests that are rather isolated from the decision making process of the firm. In addition, tighter regulation and intense competition, both domestic and foreign, force SMEs to adopt modern tools and philosophies.

Some Japanese tools are particularly apt to enhance Greek SME governance, as they allow a consistent treatment of strategic issues, including adaptation to a changing environment and succession, and governance issues such as minority stakeholders´ problems. In particular, *hoshin* management helps to reduce intra-company conflict and systematically promotes change. In addition, the tools are flexible, of low cost, and rapidly effective, all attractive qualities for firms in a difficult environment.

These methods are very simple to learn and use. Simplicity is a highly regarded value in basic sciences such as physics, although not necessarily in management theory. However, simplicity promotes the diffusion of ideas across organizations and helps to consolidate change through a company-wide movement. Simple tools facilitate the participation of a great number of members of an organization, leading to easier implementation of plans, better use of collective wisdom, and an increased identification of employees with company goals and means. Table 1 indicates how key problems of Greek SMEs and their environment could be addressed by Japanese management tools and provides operating mechanisms.

Governance-related aspects of Greek SMEs and their environment	Applicable tools to address them	Operating mechanisms
Economic crisis	HM, SME indicator.	HM can draw specific plans with objectives of immediate effect. The SME indicator measures and enhances board work.
Regulation	SME indicator.	The SME indicator measures the quality of the relationships with the stakeholder goverment and enhances board work.
Competition	MS.	The meeting system is a framework to collect collective wisdom of owners and employees for strategy formulation.
Scarce resources to develop a governance architecture	HM, SME indicator, MS.	All three tools have an extremely low implementation and maintenance cost and they become the axis to create a SME governance architecture.
Need for a long term perspective and the formulation of a clear strategy	HM, SME indicator, MS.	HM develops a plan for the first year of a long-term plan (usually, of five years). The SME indicator measures and enhances board work as a creator of long-term strategies. The MS collects collective wisdom.
Strong commitment to the business	MS, SME indicator.	The MS leads to a regular treatment of all business-related matters. The SME indicator measures and enhances relationships with diverse stakeholdes and evaluates and motivates the board.
Family members in top management, succession issues	SME indicator, MS, HM.	The SME indicator measures and evaluates the effect of governance principles, related to a family protocol, for example; in addition, it evaluates and motivates adequate board work. At the MS, family concerns can be systematically dealt with. HM can include succession-related objectives.
Employee care and loyalty, staff employement	SME indicator, MS.	The SME indicator, in its stakeholder section, measures employee relationships and can serve to improve them; in addition, in its principles section, the indicator approaches transparency towards employees, thus strengthening care and loyalty. Employees can participate in some meetings, with the same effect. These mechanisms facilitate, over the medium and long term, firm reputation and staff employment.
Corporate governance issues, conflict management	SME indicator, MS, HM.	The SME indicator is an overall guide to treat various goverance issues, including conflict management, through the stakeholder approach, the principles and the board work. The MS is a space to deal with problems. HM can fix some objectives addressed to solve specific conflicts.
Need to manage professionally	SME indicator, MS, HM.	The SME indicator suggests that professionalization starts at the board. The MS can include training and educational activities. Some *hoshin* can be related to professionalization.
Resistance to change	MS, HM.	The MS is a space to discuss resistance to change and design policies to overcome it. Some HM objectives can address change and deal with it over the planning year.

Table 1. Governance-related aspects of Greek SMEs and their environment, applicable tools to address them, and main operating mechanisms. HM: *Hoshin* management, MS: Meeting system.

III. KEY IDEAS OF SME GOVERNANCE. AN INDICATOR

Yacuzzi (2008) proposes an indicator that measures SME governance. The indicator is based on the measurement style of the Japanese Deming Price, and assumes a governance concept centered around three axis: (1) Governance principles; (2) Interactions among stakeholders; and (3) The work of the board of directors. I adhere to a governance approach centered on stakeholders, according to which the firm must achieve harmony among diverse interests through the work of the board and top management, on the basis of a few governance principles. Table 2 shows fundamental themes of SME governance and its indicator. The table is a summary of a larger questionnaire (Yacuzzi, 2008) that provides a quantitative evaluation of SME governance, using a 1000 point scale.

Governance principles are a list of a minimum set of prescriptions for action that emerge from the adopted governance design. The stockholder area is given much space among the elements to define SME governance and its measurement. Clarkson (1994) characterizes the firm as a system of stakeholders operating within the larger system of the host society; the stakeholders provide the legal and market infrastructure for the firm's activities. The firm creates wealth or value for its stakeholders by converting their stakes into goods and services.[1] Margaret Blair adheres to the position that considers firms as institutional arrangements regulating relationships among all the parts that contribute to wealth creation with specific assets.[2] Finally, the area of board work rests on studies such as Gabrielsson (2003), which present directors' work as value-creating tools that improve SME performance.

Although the proposed indicator is easy to use, it looks complex, due to its large number of elements. A simpler measurement instrument would be ideal, but it is not available today. The literature shows a great number of complex indicators

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[1] Clarke (2004), p. 195.
[2] Blair (2004), p. 182.

used in management and finance theory, resembling indicators used in National Quality Awards, such as the Deming Price. A key idea behind these indicators is that 'things that matter must be measured; if they were not, things could not be improved and, even if improved, no one would realize it for sure.' In short, National Quality Awards-type indicators define measurement criteria and suggest the need for a number of metrics, both financial and non-financial.

Area	Themes
General principles of governance (200)	Explicit consideration of goverance (130)
	Provision of information (40)
	Directors' representativeness (15)
	CEO duality (15)
Stakeholders (500)	Shareholders' position (230)
	Employees' position (80)
	Customers' position (55)
	Creditors' position (25)
	Suppliers' position (55)
	Governments' position (10)
	Society and environment's position (45)
Board's work (300)	Board's routine (20)
	Competence and compromise (160)
	Board's composition and behavior (35)
	Control and monitoring (35)
	Advise and networking (50)

Table 2. Elements of the governance concept and its indicator. Numbers between brackets indicate the maximum number of points that could be assigned to each area or theme.

IV. HOSHIN MANAGEMENT[1]

Hoshin management is a management style that coordinates an organization's activities to achieve key objetives, called '*hoshin*', and quickly react to environmental change. *Hoshin* management involves the whole company and integrates strategic management with daily management; to do this, *hoshin*

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[1] This section is based on Yacuzzi (2005 b).

management links top management *hoshin* with lower level *hoshin*, in a process of cascade deployment that goes all the way down to reach daily management.

Hoshin management is a systemic process. A partial application of its tools becomes suboptimal, as ends-means relationships are not properly managed. Due to its nature, which aims at integration of company activities, *hoshin* management can be considered as a framework for TQM, in which strategic activities are readily linked to operational activities; objectives are set at all levels; people are motivated; changes are planned; and results controlled.

Hoshin is the Japanese word for magnetic compass; as a second meaning, it means policy, in a general sense. Each top-management objective, as well as lower objectives that are generated cascade-style, are called *hoshin*. *Hoshin* plans are detailed and mutually accepted by all members of an organization; they are developed and implemented with simple tools that lead the organization to its objectives while it learns in the process.

Let us look at a simple model of *hoshin* practice. Assume a firm with the following structure: (1) Board of directors, (2) CEO, (3) Managers, (4) Section chiefs, and (5) Employees, working individually or as a group. *Hoshin* management starts by adapting the corporate vision and (five year) long-term plans to changes in the economic and social environment. From that adaptation, (two year) medium-term plans and annual plans are devised for each one of five levels. The *hoshin* and the annual action plan for each manager's office, section chief's office, and employee is obtained by deploying the CEO's *hoshin* and key action plans.

About two months prior to the start of the year, the CEO informs his managers about the *hoshin* he plans to apply and about key elements in the action plan. Managers receive those *hoshin* and key elements and, on that basis, prepare their own preliminary *hoshin* and action plans, through negotiation with his subordinate section chiefs. Section chiefs, in turn, prepare preliminary *hoshin* and action plans that respond to the action plan of each manager. Likewise, groups and individuals

prepare their preliminary *hoshin* and action plans according to each section chief's guidelines.

Hoshin deployment involves frequent catchball activity. Catchball is a kind of negotiation founded on the analysis of objectives, schedule and resources of different areas that creates a high level of trust among participants. *Hoshin* (objectives) are realistic and emerge from catchball, which deals with means and ends and employs physical units (such as number of trucks or square meters) rather than monetary units. The consistent use of catchball and physical units are among the main differences *hoshin* management has with other planning methods such as management by objectives. Another difference is that (annual) *hoshin* plans are part of a long term plan, usually a five-year plan.

In general, *hoshin* planning covers a calendar year; over the first six months, top level management's *hoshin* are deployed through catchball toward lower levels. During the process, upper level managers explain to lower level employees the details of *hoshin* deployment. During the second half-year, a final agreement between levels, from bottom to top, is reached through catchball; the agreement implies commitment to the devised plans, thus closing the anual planning period.

During the *hoshin* and plans design process, ends-means relationships are thoroughly and explicitly discussed. At all levels, goals, metrics (preferably quantitative) and timetables are established. Quantitative goals inspire more confidence than simple qualitative goals. Tasks to achieve goals start and improvement activities are carried out.

Goals are the basis of control. Goals and their control method are established during the planning cycle, after defining *hoshin* and asigning resources to achieve them. This is an application of the continuous improvement cycle (Plan-Do-Check-Act, or PDCA) to the management process. Each member in the firm must have goals. Without goals, the PDCA cycle cannot be closed, as the checking step cannot be accomplished.

At the end of the planning period, *hoshin* and key action plans are informed to the company. From there on, the CEO interacts with managers and employees to

inquire about their advances and difficulties to execute the plans. Formal control systems are not enough: personal interaction is constant.

The correlation between the above description of the *hoshin* management process and real cases has been documented in the literature. Moreover, I have had the opportunity to observe it, during a period of four years, at a leading Japanese shipyard.

V. A SYSTEM OF EFFECTIVE MEETINGS[1]

A third important tool for SME governance is a system of effective meetings. *Hoshin* management assumes the existence of such a system, through which planning activity is deployed and controlled. In this sense, the *hoshin* system and the meetings system are part of the same governance architecture. Likewise, the SME governance indicator is integrated in the system, and used throughout the year in the context of meetings and *hoshin* plans, as a tool for learning, orientation and control.

A system of effective meetings is a hierarchycal structure of regular meetings in an organization. For example, let us assume a firm integrated by the following levels: (1) President, (2) Three managers (Administration and Finance, Operations, and Marketing), (3) Six section chiefs or supervisors (two people report to each manager), (4) Employees (reporting to section chiefs).

Its meeting system would be a pyramid as in Figure 1. The pyramid is an ideal structure that is used recursively. Information flows smoothly through it, from top to bottom and viceversa, at least once a week. As soon as it is designed, the pyramid is an empty structure that is filled out with two elements: (1) Systematic search for important governance problems; and (2) Methods to solve them. During meetings we emphazise two things: (1) Team work and (2) A scientific approach to problem-solving, based on data and facts.

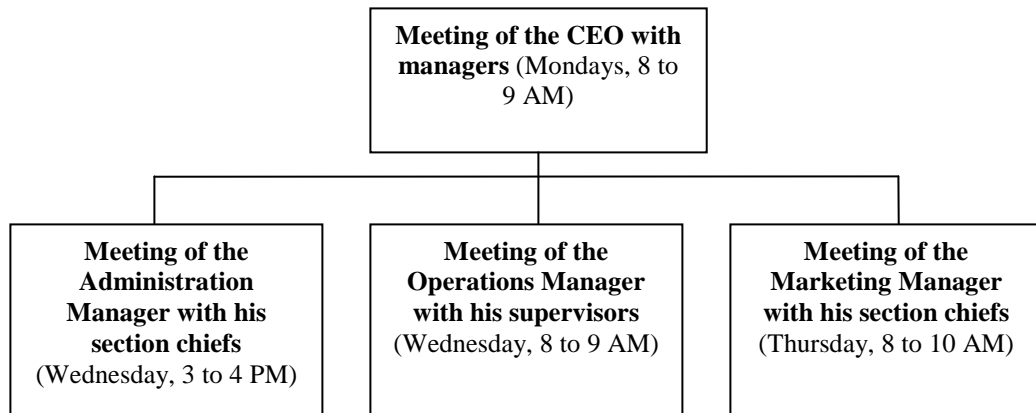[1] This section is based on Yacuzzi & Naiberger (2009).

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Figure 1. The basic structure of a meeting system. An example.

A meeting system includes the following elements: (1) Organization of the pyramid, which is usually done by trial and error; (2) Objetive determination, that is, what are the most important themes to be dealt with; (3) Determination of objective measurement criteria and problem solving methods; for a system to work, methods for analysis and problem resolution are required; (4) Clarification of manager and employee responsibilities regarding the meeting system.

VI. OTHER TOOLS AND THEIR INTEGRATION

Japanese quality tools are an integrated system. This implies the use of classic tools of quality management, such as the PDCA cycle, the seven classic tools, and the seven managerial tools. Classic tools interlink with newer and more general methods. For example, the PDCA cycle is an integral part of *hoshin* management, as we saw above. On the other hand, well-known TQM tools can be used in problem solving during the *hoshin* process, the meeting system, and the evaluation

of governance through the SME governance indicator. The three main tools presented in this article are themselves closely integrated, as shown in Table 3.

	SME indicator	*Hoshin* management	Effective meeting system
SME indicator	X	The SME indicator provides guidelines to potencial *hoshin* and serves to control implementation.	The SME indicator is analyzed at meetings on a periodic basis and serves to design policies.
***Hoshin* management**	*Hoshin* (objectives) can become items in the SME indicator.	X	The *hoshin* plan is elaborated and controlled at meetings.
Effective meeting system	The effectiveness of the meeting system is analyzed with appropriate indicator items.	The meeting system is a source of ideas for the *hoshin* plan.	X

Table 3. How the SME indicator, *hoshin* management and the effective meeting system conform a system.

VII. POSSIBLE APPLICATIONS OF THE TOOLS TO CONCRETE GOVERNANCE ACTIONS

How can we integrate our tools to enhance SME governance? One of their characteristics is the freedom to mix them in various ways. Freedom applies to the order in which tools can be used, to the field of application, to the greater or lesser intensity in control activities, to the scope of trials, and so on. Each organization should decide how to use the tools, as a function of its purpose, its resources, the time of implementation, and other factors.

Nonetheless, there are universal guidelines. If we assume that the proposed tools are to be applied to SME governance, the starting point should be a governance-enhancing plan. The plan could be part of a more general long-term plan, of which

the *hoshin* plan would be the first-year plan. There are various ways in which *hoshin* management could be applied to the enhancement of SME governance. This is not surprising, as a *hoshin* is an objective to be met and, as long as this objective is important, it is possible to introduce it in a *hoshin* plan.

As an example, a firm could activate the work of its board and include this activation as one of the company's annual *hoshin*. Thus, 'all' areas would became aware of the value and importance of using board resources to the limit. I highlight the word 'all' as all areas and employees have the chance and obligation to use the opportunities of an active board. If board activation consists, say, in hiring an external director, all managers and employees will have access to the experience of this director in solving company problems in different contexts.

In addition, all personnel, one way or another, should have access to the new director to learn as much as posible from his experience. Access and interactions, moreover, should not be casual or random, but rather the result of a systematic plan to integrate the new board member with all levels in the organization. The plan would be in line with *hoshin* management ideas.

Problems in which the new director could operate are those associated with concrete governance actions, such as the following: Awards to management performance; actions to enhance company culture, values and mission, as well as leadership at all levels; implementation of an ethics code; and monitoring of managerial actions. These actions could be followed by applying the SME governance indicator in the context of a meeting system. Thus, from a concrete governance action, *hoshin* management would become operative, as well as its associated meeting system and its SME governance indicator, which would act as a signal of the direction set by the enterprise and as a vehicle of organizational learning and control.

VIII. THE ROLE OF CULTURE

The proposed tools have the hallmarks of Japan and frequently we hear references to the difficulty of applying them in other cultures, as they would be products of a unique social and cultural environment. I do believe, however, that the socio-cultural view is limited; it assumes that socio-cultural values are the explanatory variables while management methods are the dependent variables. In practice, however, socio-cultural values evolve and it would be inconsistent to assume that the reality of management is determined by culture alone. There might be some features in Japanese culture, such as discipline and groupism, which cannot easily be transported to other cultures, but the key to effective learning from the Japanese consists in adopting technological tools that trascend culture and history and can be applied in foreign cultures. By consistently applying them, a new culture can be created through a large-scale social network.

IX. THE ROLE OF GOVERNMENTS AND NATION-WIDE ORGANIZATIONS

Systematic adoption of the governance tools proposed in this article implies what Shiba et al. (1993) call 'a mass movement', that is, a set of activities and change actions that reach everyone in the company.[1] For the mass movement to take place, the role of CEOs and middle managers in leading and implementing change is key, as any practical change theory would mantain.

Not so common, however, is the process of networking and societal diffusion. The process is important because the learning of SME governance is a kind of societal experiment, which advances by trial-and-error. Advances can be quicker

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[1] Shiba et al. (1993), p. 307.

and less costly if good experiences are shared by a large number of companies and individuals. Based on the experience of Japan with her TQM movement, a few ideas can be advanced that might be applied to the Greek case.

Three elements were necessary in Japan for the diffusion of TQM practices: (1) A supporting structure for networking; (2) Sharing real cases across all firms; and (3) The work of change agents external to the company. Elements (2) and (3) are self-explanatory. Element (1), the supporting structure, included several parts, among them: Japanese promotion organizations, both government and semi-private; training on a nation-wide scale, at all levels of the educational system; knowledge dissemination; promotional activities; and national standard certification.[1] Similar actions could be recommended for the diffusion of SME governance in Greece.

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[1] Shiba et al. (1993), p. 510.

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